Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Message Text

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PAGE 01 TAIPEI 04617 01 OF 02 180918Z
ACTION EA-12

INFO OCT-01 ISO-00 SP-02 ICA-11 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 AGRE-00 DOE-15 SOE-02 /108 W
----------068331 180928Z /20
R 180856Z JUL 78
FM AMEMBASSY TAIPEI
TO SECSTATE WASHDC 8181

LIMITED OFFICIAL USE SECTION 01 OF 02 TAIPEI 04617

E.O. 11652: N/A
TAGS: EFIN, TW
SUBJECT: ROC ANTI-INFLATION MEASURES

REF: TAIPEI 4071

1. AS REFTEL INDICATES, THE GROC HAS TAKEN A NUMBER OF MEASURES RECENTLY TO LESSEN INFLATIONARY PRESSURES IN THE ECONOMY. IN ADDITION TO REVALUATION OF THE NEW TAIWAN DOLLAR, THE GROC, ACTING THROUGH THE CENTRAL BANK OF CHINA (CBC, HAS EASED RESTRICTIONS ON THE USE OF FOREIGN CURRENCY AND TAKEN STEPS TO REDUCE THE DOMESTIC MONEY SUPPLY. MEASURES IN EFFECT NOW ARE AS FOLLOWS:

2. THE LIST OF 58 ESSENTIAL GOODS AND RAW MATERIALS WHOSE IMPORTATION COULD BE FINANCED THROUGH USE OF FOREIGN EXCHANGE ACCOMMODATIONS FROM THE CBC HAS BEEN ENLARGED TO INCLUDE NICKEL, ALUMINUM, COPPER, LEAD, TIN, ZINC, MAGNESIUM, AND SILICATE. THE INTEREST RATE CHARGED ON SUCH ACCOMMODATIONS, WHICH IS AVAILABLE ONLY TO LOCAL, NON-FOREIGN BANKS, HAS BEEN LOWERED FROM 10 TO 8 PERCENT, WHILE THE MAXIMUM RATE WHICH THESE BANKS MAY CHARGE FOR ON-LENDING TO IMPORTERS WAS LOWERED FROM 11 TO 9 PERCENT. THE LIMITED OFFICIAL USE

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PAGE 02 TAIPEI 04617 01 OF 02 180918Z

TERM OF THESE ACCOMMODATIONS MAY NOW BE EXTENDED TO 360 DAYS; THE PREVIOUS LIMIT WAS 270 DAYS.

3. THE CEILING ON OUTSTANDING FOREIGN CURRENCY LOANS FROM THE CBC THROUGH LOCAL BANKS TO LOCAL COMPANIES FOR IMPORTS OF MACHINERY AND EQUIPMENT HAS BEEN RAISED FROM US$1 MILLION TO US$2 MILLION PER COMPANY.

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

4. ROC CITIZENS TRAVELING ABROAD FOR BUSINESS PURPOSES MAY NOW BUY US$2,200 IN FOREIGN EXCHANGE FOR EACH MONTH TO BE SPENT ABROAD, UP TO A MAXIMUM OF THREE MONTHS. THE PREVIOUS LIMIT WAS US$1,500 PER MONTH.

5. ROC CITIZENS TRAVELING ABROAD FOR NON-BUSINESS PURPOSES MAY BUY US$1,500 IN FOREIGN EXCHANGE, US$300 MORE THAN PREVIOUSLY.

6. FOREIGN NATIONALS WHO WORK FOR APPROVED ENTERPRISES IN TAIWAN FOR AT LEAST SIX MONTHS AND WHO ARE THEN SENT ABROAD FOR BUSINESS PURPOSES ARE GOVERNED BY THE REGULATION SET OUT IN PARAGRAPH 3 ABOVE. PREVIOUSLY, SUCH INDIVIDUALS COULD NOT LEGALLY PURCHASE FOREIGN CURRENCY.

7. ROC SEAMEN MAY PURCHASE US$600 IN FOREIGN CURRENCY FOR THE PURPOSE OF TRAVEL ABROAD FOR EMPLOYMENT. THE PREVIOUS MAXIMUM WAS US$250.

8. THE AMOUNT OF CURRENCY WHICH A ROC COMPANY MAY REMIT TO AN OVERSEAS BRANCH HAS BEEN RAISED BY 25 PERCENT. CURRENT AMOUNTS VARY ACCORDING TO THE SIZE AND LOCATION OF THE BRANCH.

9. ROC CITIZENS MAY NOW SEND US$1,500 A YEAR TO PERSONS RESIDING OUTSIDE THE ROC; OVERSEAS RECIPIENTS CAN NOW RE-
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PAGE 03 TAIPEI 04617 01 OF 02 180918Z

CEIVE US$3,000 PER YEAR FROM THE ROC. PREVIOUS LIMITS WERE US$1,000 AND US$2,000, RESPECTIVELY.

10. THE DOMESTIC BANK LIQUIDITY (OR RESERVE) RATIO HAS BEEN RAISED FROM 5 TO 7 PERCENT.

11. THE AMOUNT OF TREASURY BILLS SOLD EVERY TWO WEEKS WILL BE INCREASED FROM THE PRESENT RANGE OF NT$200 TO NT$400 MILLION (US$5.6 MILLION TO US$11.1 MILLION) TO BETWEEN NT$600 MILLION AND NT$800 MILLION (US$16.7 MILLION TO US$22.2 MILLION). THERE ARE 90 AND 180 DAY TREASURY NOTES. THEY ARE SOLD BY THE CBC TO DOMESTIC BANKS. INTEREST RATES ARE BETWEEN 7 AND 8 PERCENT.

12. CBC'S REDISCOUNTS TO DOMESTIC BANKS ON L/C INSTRUMENTS FOR EXPORT LOANS HAVE BEEN LIMITED TO THE AMOUNT OUTSTANDING ON JULY 1, NT$5.6 BILLION (US$155.6 MILLION).
DOMESTIC BANKS HAVE BEEN URGED TO USE THEIR OWN FUNDS FOR EXPORT LOANS.

13. DOMESTIC BANKS WILL BE ASKED TO PURCHASE TIME DEPOSIT CERTIFICATES FROM THE CBC. TERMS OF SUCH CERTIFICATES RUN

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

FROM ONE TO TWELVE MONTHS, OR MORE, WITH INTEREST RATES RANGING FROM 5.25 PERCENT (FOR A ONE-MONTH CERTIFICATE) TO 9.5 PERCENT (FOR 12 MONTHS). OUTSTANDING TIME DEPOSIT CERTIFICATES REACHED NT$2.9 BILLION (US$80.6 MILLION) IN 1977, BUT DECLINED TO ZERO IN MARCH OF 1978. THE CBC HOPES TO SELL NT$1 BILLION (US$27.8 MILLION) WORTH OF CERTIFICATES.

COMMENT: THESE MEASURES, EVEN IF TAKEN TOGETHER WITH THE REVALUATION OF THE NEW TAIWAN DOLLAR, WILL PROBABLY NOT SIGNIFICANTLY REDUCE INFLATIONARY PRESSURES IN TAIWAN. GOVERNMENT PLANNERS ACKNOWLEDGE THAT THE ABOVE MEASURES ARE LIMITED IN SCOPE AND SERVE MAINLY TO INDICATE THAT THE

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PAGE 01 TAIPEI 04617 02 OF 02 180921Z
ACTION EA-12

INFO OCT-01 ISO-00 SP-02 ICA-11 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 AGRE-00 DOE-15 SOE-02 /108 W
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LIMITED OFFICIAL USE SECTION 02 OF 02 TAIPEI 04617

GROC IS ALERT TO THE PROBLEM OF RISING PRICES. LIBERALIZING THE REGULATIONS GOVERNING THE PURCHASE OF FOREIGN EXCHANGE, FOR EXAMPLE, (REGULATIONS SOMETIMES OBSERVED ONLY IN THE BREACH) WILL HARDLY OFFSET BILLIONS OF US DOLLARS EARNED BY EXPORTERS. ALTHOUGH RAISING THE LIQUIDITY RESERVE RATIO FOR DOMESTIC BANKS WILL TIE UP NT DOLLARS OTHERWISE AVAILABLE FOR LOANS, EMBASSY SOURCES IN LOCAL BANKS SAY EXPECTED INCREASES IN DEPOSITS, STIMULATED BY EXPORTS, WILL MORE THAN OFFSET THE INCREASED RESERVE REQUIREMENT. THE GROC HAS STILL NOT TAKEN WHAT MANY ECONOMISTS (BOTH IN AND OUT OF GOVERNMENT) BELIEVE WOULD BE THE MOST EFFECTIVE MEASURE, I.E., LOWERING IMPORT DUTIES SIGNIFICANTLY. A MEASURE DUE TO BE PROMULGATED SHORTLY WILL, ACCORDING TO PRELIMINARY REPORTS, LOWER SLIGHTLY THE DUTY RATES ON A LARGE NUMBER OF ITEMS, WHILE RAISING TARIFFS ON A FEW OTHER PRODUCTS. A LIST OF

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

ITEMS AFFECTED, ALONG WITH EMBASSY COMMENTS, WILL BE
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20 Mar 2014
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